

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-156-E - ORDER NO. 2006-405
JULY 11, 2006

IN RE: Application of Duke Power Company, LLC) ORDER APPROVING
 d/b/a Duke Energy Carolina, LLC for) EXECUTORY
 Approval of an Executory Transfer and Sale of) TRANSFER AND SALE
 Property) OF UTILITY PROPERTY

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Duke Power Company, LLC d/b/a Duke Energy Carolina, LLC (Duke or the Company) for approval of an executory transfer and sale of certain utility property located in Duke's electric service territory to support participation in a national "Spare Transformer Sharing Agreement" (Sharing Agreement). The request is made pursuant to the provisions of S.C. Code Ann. Section 58-27-1300 (Supp. 2005).

According to the Company, this Agreement allows participating utilities to share spare electric transformers in the event of a national emergency as a result of a "coordinated deliberate destruction of a utility substation." Duke notes that this arrangement allows it: to support the national effort to protect its electric infrastructure from terrorist activities; to provide it and the citizens of South Carolina with a higher level of preparedness in the event of an attack on the electric system; and, to lower overall future costs to Duke's ratepayers. Duke further states that Duke retains ownership and possession of the spare transformers assigned to this program and can use the

transformers for equipment failures on its system as long as the spares are replaced within eighteen (18) months.

The Office of Regulatory Staff (ORS) filed a letter with this Commission, stating that it has no objection to the proposal. ORS states that it recognizes the request to be reasonable and that it will serve the interests of Duke's retail customers as well as the interests of South Carolina and the United States.

The Company noted that, as of May 12, 2006, thirty-two (32) of the nation's electric utilities have executed this Sharing Agreement, with the expectation that additional parties will also execute it. The Company further noted that the Sharing Agreement will provide for an electric industry-wide pool of spare electric transformers that can be called upon and transferred from one utility to another utility in the event of a coordinated terrorist attack upon the electric infrastructure in the United States. Although Duke assesses the risk of having to sell a spare electric transformer to a participating electric utility pursuant to the Sharing Agreement to be very low, the possibility of a sale does exist if a terrorist attack were to occur, and the cost of any such sale of a spare electric transformer or transformers may well exceed one million dollars, thereby requiring approval by this Commission under S.C. Code Ann. Section 58-27-1300.

Duke states that a "triggering" event under the Sharing Agreement would be (a) a coordinated and deliberate terrorist attack against the system of a participating utility as defined in the Homeland Security Act and (b) the declaration of a national emergency by the President of the United States, pursuant to the National Emergencies Act. Given the defined nature of such triggering event in the Sharing Agreement and the need to

implement a response in a timely manner, Duke believes that such an event would be an exigent circumstance that would not allow Duke sufficient time to apply to this Commission for approval and still meet the sharing commitment under the Sharing Agreement in a timely matter. Accordingly, Duke concludes that the relief sought in the Application for approval of an executory transfer and sale of a spare electric transformer(s) is reasonable and prudent and will serve the best interest of Duke's customers and all citizens of South Carolina.

The Company states that because the proposed transfer and sale of utility property (the transformers) is executory, appropriate bookkeeping entries will be made at the time of any future transfer and sale. The Company will immediately provide the proposed bookkeeping entries to ORS for that agency's review, and after such review, the bookkeeping entries will be provided to this Commission for approval.

By entering into the Sharing Agreement, Duke states that it will lower its overall future costs to maintain spare transformers in its inventory, thereby benefiting electric rate payers. Likewise, Duke states that, although it has taken significant steps to protect its infrastructure from a possible terrorist attack, it does not believe that it would be feasible or economically practical to maintain in its inventory the large number of spare transformers needed to address every "worst case scenario" for a terrorist attack upon the electric system. The Sharing Agreement, according to Duke, will allow it and its customers to have the added benefits of access to transformers in a national emergency without the added costs and risk of buying and carrying large surpluses of spare transformers in its inventory. Duke states that it currently has sufficient spare

transformers in its inventory to meet the requirements of the Sharing Agreement, and does not anticipate the need to purchase any additional transformers to meet the requirements of the Agreement. Moreover, Duke notes that it will be committing only a portion of its total spare transformers to the sharing pool and anticipates that it will continue to have sufficient transformers remaining in its inventory to maintain safe and reliable operations and to address equipment failures that may arise on the system.

We approve Duke's proposal as filed. We believe that approval of this proposal is in the public interest, given today's concerns over possible terrorist activities in this country. We believe that the Sharing Agreement helps protect Duke and its ratepayers from catastrophic circumstances that could occur with a terrorist attack on the Company's infrastructure. Likewise, we believe that approval of the arrangement benefits our State and Nation in these uncertain times.

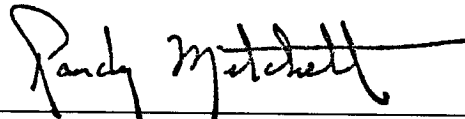
Since the proposed transfer and sale of the transformers is executory, it is clear that Duke's plan for making the appropriate bookkeeping entries at the time of any future transfer and sale is reasonable. Accordingly, the approval of the executory transfer and sale under these circumstances is approved.

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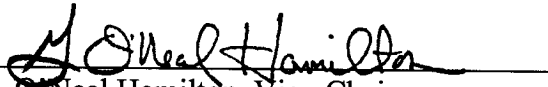
This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

A handwritten signature in black ink, reading "Randy Mitchell", with a horizontal line extending from the end of the signature.

Randy Mitchell, Chairman

ATTEST:

A handwritten signature in black ink, reading "G. O'Neal Hamilton", with a horizontal line extending from the end of the signature.

G. O'Neal Hamilton, Vice-Chairman

(SEAL)